FINANCIAL REVIEW

Actively taking advantage of the favourable opportunities in both the domestic and overseas arenas, COSCO SHIPPING Ports has been deploying its port assets along the route of the Belt and Road initiative. In recent years, at the overseas front, COSCO SHIPPING Ports has acquired 51% equity interests in CSP Spain Group, it has also acquired additional equity interests in CSP Zeebrugge Terminal, which became a subsidiary of the Company; at the domestic front, it has acquired Nantong Tonghai Terminal and CSP Wuhan Terminal as subsidiaries. In addition, the subscription for non-circulating domestic shares in QPI and the integration of Dalian Container Terminal were completed in 2017. In 2019, COSCO SHIPPING Ports completed the acquisition of 60% equity interests in CSP Chancay Terminal. Together with the integration of Tianjin Container Terminal and acquisition of CSP Zeebrugge CFS which engages in business relating to terminal operation including warehouses leasing, the terminal network of COSCO SHIPPING Ports will become more comprehensive.

However, profit of COSCO SHIPPING Ports for the year was affected by the one-off dilution effect on equity interests in QPI and the New Lease Standard. In 2019, COSCO SHIPPING Ports recorded a profit attributable to equity holders of the Company of US$308,017,000 (2018: US$324,583,000), a 5.1% decrease compared with last year. Excluding effects of the one-off dilution effect on equity interests in QPI and the New Lease Standard during the year, COSCO SHIPPING Ports recorded a profit attributable to equity holders of the Company of US$350,869,000 (2018: US$324,583,000) for 2019, an 8.1% increase compared with last year.

In 2019, profit from terminals in which the Group has controlling stakes amounted to US$49,830,000 (2018: US$65,701,000), a 24.2% decrease compared with last year; profit from non-controlling terminals was US$304,195,000 (2018: US$298,257,000), a 2.0% increase compared with last year. Excluding the one-off dilution effect on equity interests in QPI, profit from non-controlling terminals was US$326,748,000 (2018: US$298,257,000), an increase of 9.6% compared with last year. Excluding the one-off dilution effect on equity interests in QPI and the New Lease Standard during the year, profit from the terminals business recorded during 2019 was US$396,848,000 (2018: US$363,958,000), a 9.0% increase compared with last year. Of this, profit from terminals in which the Group has controlling stakes was US$63,286,000 (2018: US$65,701,000), a 3.7% decrease compared with last year; profit from non-controlling terminals was US$333,562,000 (2018: US$298,257,000), an 11.8% increase compared with last year.

Profit from terminals in which the Group has controlling stakes was mainly attributable to Piraeus Terminal in Greece, Guangzhou South China Oceangate Terminal and Xiamen Ocean Gate Terminal. In 2019, throughput of Piraeus Terminal increased by 17.0% compared with last year, however, profit was partially offset by effect of the New Lease Standard; profit recorded by Piraeus Terminal increased to US$28,652,000 (2018: US$23,829,000) for 2019, representing a 20.2% increase compared with last year. Excluding effect of the New Lease Standard, profit recorded by Piraeus Terminal increased to US$33,901,000 (2018: US$23,829,000) for 2019, representing a 42.3% increase compared with last year. Throughput of Guangzhou South China Oceangate Terminal for 2019 increased by 8.9% compared with last year, while its profit for the year increased to US$15,811,000 (2018: US$14,228,000), an 11.1% increase compared with last year. Throughput of Xiamen Ocean Gate Terminal for 2019 increased by 4.7% compared with last year, its bulk cargo throughput also increased by 1.3% compared with last year; although higher depreciation and interest expenses were recorded for the year due to the commencement of operation of No. 14 berth and automatic equipment at the end of 2018, profit recorded during the year increased to US$12,284,000 (2018: US$12,047,000), a 2.0% increase compared with last year.

In respect of non-controlling terminals, COSCO SHIPPING Ports completed the acquisition of 4.34% equity interests in Beibu Gulf Port in December 2018. For 2019, the Company recorded fair value gain for Beibu Gulf Port of US$24,383,000 (2018: US$4,283,000). On the other hand, however, following the issuance of additional A shares by QPI, equity interests in QPI held by the Company were diluted from 18.41% in December 2018 to 17.12% in January 2019. Although the Company kept increasing its shareholding to 18.46% as at 31 December 2019, share of profit of QPI for 2019 decreased to US$94,512,000 (2018: US$95,747,000), a slight 1.3% decrease compared with last year. Profit after taxation of US$27,411,000 was recorded due to the disposal of COSCO Ports (Nanjing) Limited ("CP (Nanjing)") and its 16.14% stakes in Nanjing Longtan Terminal according to the Company's strategic planning in 2019. In addition, share of profit of Shanghai Mingdong Terminal during the year was US$11,959,000 (2018: US$18,376,000) for 2019, a 34.9% decrease compared with last year, which was mainly attributable to a decrease in throughput, effect of the New Lease Standard and lower government subsidies. Due to decrease in throughput and change in container mix, the revenue per TEU decreased. Share of profit of Shanghai Pudong Terminal during the year was US$18,816,000 (2018: US$21,645,000), a 13.1% decrease compared with last year. For overseas non-controlling terminals, the share of profit of Euromax terminal amounted to US$4,902,000 (2018: US$9,034,000), a 45.7% decrease compared with last year, which was mainly attributable to the New Lease Standard and the decrease in throughput.

FINANCIAL ANALYSIS

REVENUES

Revenues of the Group for 2019 amounted to US$1,027,658,000 (2018: US$1,000,350,000), a 2.7% increase compared with last year. Of this, Piraeus Terminal saw an increase in its throughput as compared with last year, recording revenue of US$256,489,000 (2018: US$230,767,000) for 2019, an 11.1% increase compared with last year. In 2019, Guangzhou South China Oceangate Terminal saw an increase in its throughput as compared with last year, recording revenue of US$162,909,000 (2018: US$159,456,000) for the year, a 2.2% increase compared with last year. On the other hand, Nantong Tonghai Terminal and CSP Abu Dhabi Terminal recorded revenue for 2019, where Nantong Tonghai Terminal and CSP Abu Dhabi Terminal had not yet commenced operation officially last year. In addition, Quan Zhou Pacific Terminal recorded revenue of US$45,567,000 (2018: US$56,906,000) for 2019, a 19.9% decrease compared with last year, due to its decrease in bulk cargo throughput as compared with last year. Moreover, Zhangjiagang Terminal saw a decrease in its throughput for the year, recording revenue of US$27,064,000 (2018: US$35,275,000) in 2019, a 23.3% decrease compared with last year.

COST OF SALES

Cost of sales mainly comprised the operating expenses of terminals in which the Group has controlling stakes. Cost of sales for 2019 was US$754,934,000 (2018: US$706,659,000), a 6.8% increase compared with last year. The increase was mainly attributable to higher cost of sales of Piraeus Terminal in response to the increase in its throughput. Together with the higher labour costs and increased depreciation charge for the year due to the completion of construction of the western part of Pier 3, the cost of sales of Piraeus Terminal in 2019 increased to US$199,377,000 (2018: US$182,065,000), a 9.5% increase compared with last year. The cost of sales included those incurred by Nantong Tonghai Terminal and CSP Abu Dhabi Terminal, which commenced operation officially in the third quarter of 2019 and the fourth quarter of 2019 respectively.

ADMINISTRATIVE EXPENSES

Administrative expenses in 2019 were US$123,998,000 (2018: US$110,871,000), an 11.8% increase compared with last year, which was mainly attributable to increase in administrative expenses owing to newly acquired terminals and some terminals which commenced operation officially.

OTHER OPERATING INCOME/(EXPENSES), NET

Net other operating income in 2019 was US$63,784,000 (2018: US$30,374,000), which included the profit before taxation of US$28,299,000 (2018: Nil) in respect of the disposal of CP (Nanjing) and its 16.14% stakes in Nanjing Longtan Terminal according to the Company's strategic planning. Fair value gain of Beibu Gulf Port of US$24,383,000 (2018: 4,283,000), and the profit before taxation from the integration of Tianjin Container Terminal of US$6,861,000 (2018: Nil). One-off dilution effect on equity interests in QPI was US$22,553,000 (2018: Nil).

FINANCE COSTS

The Group's finance costs in 2019 amounted to US$108,863,000 (2018: US$78,022,000), a 39.5% increase compared with last year. The average balance of bank loans for the year increased to US$2,773,877,000 (2018: US$2,370,355,000), a 17.0% increase compared with last year. The increase in finance costs was mainly attributable to interest expense of lease liabilities incurred as a result of the New Lease Standard, which amounted to US$16,097,000 during the year (2018: N/A). Taking into account the capitalised interest, the average cost of bank borrowings in 2019 (including the amortisation of transaction costs over bank loans and notes) was 3.77% (2018: 3.58%).

SHARE OF PROFITS LESS LOSSES OF JOINT VENTURES AND ASSOCIATES

The Group's share of profits less losses of joint ventures and associates in 2019 totalled US$267,454,000 (2018: US$292,452,000), an 8.5% decrease compared with last year. Taking into account effect of the New Lease Standard for the year, the Group's share of profits less losses of joint ventures and associates decreased by US$6,813,000. Excluding the effect of New Lease Standard, the Group's share of profits less losses of joint ventures and associates in 2019 totalled US$274,267,000 (2018: US$292,452,000), a 6.2% decrease compared with last year. Amongst which, Shanghai Mingdong Terminal, Shanghai Pudong Terminal and Euromax Terminal were joint ventures and associates with comparatively greater percentage decrease in share of profits.

INCOME TAX EXPENSES

Income tax expenses for the year amounted to US$33,566,000 (2018: US$66,042,000), a 49.2% decrease compared with last year, which was mainly attributable to the reverse of over provision of withholding income tax in previous years.

Financial Position

CASH FLOW

In 2019, the Group continued to receive steady cash flow income, its net cash generated from operating activities amounted to US$353,264,000 for the year (2018: US$265,809,000). In 2019, the Group borrowed bank loans of US$771,075,000 (2018: US$721,073,000) and repaid loans of US$309,344,000 (2018: US$514,222,000).

During the year, an amount of US$242,462,000 (2018: US$312,824,000) was paid in cash by the Group for the expansion of berths and the purchase of property, plant and equipment. An amount of HK$467,891,000 (equivalent to approximately US$59,723,000) was used to purchase circulating foreign shares in QPI with 1.34% equity interest during the year and US$15,214,000 was used to invest in CSP Zeebrugge CFS. In addition, an amount of US$14,259,000 was used by the Group to purchase 24.5% equity interest of Tianjin Orient Container Terminal Co., Ltd ("TOCT") and US$6,488,000 was used to purchase 3.073% equity interest of Tianjin Five Continents Terminal, together with 28% pre-existing equity interest in Tianjin Five Continents Terminal, for exchange of 16.01% equity interest in Tianjin Container Terminal. Furthermore, an amount of US$56,250,000 was also paid to acquire 60% equity interest in CSP Chancay Terminal, a subsidiary of the Company. Moreover, the Group increased its equity interest of Beibu Gulf Port in 2019 at a consideration of US$129,212,000. On the other hand, the Group received US$52,442,000 from the disposal of CP (Nanjing) and its 16.14% stakes in Nanjing Longtan Terminal in 2019. In 2018, an amount of US$59,761,000 was paid by the Group to subscribe for the preference shares of COSCO-PSA Terminal. In addition, in 2018, the Group subscribed for 70,943,455 shares in Beibu Gulf Port at a consideration of RMB6.64 per share, representing 4.34% equity interests, with a net investment cash outflow of US$68,632,000. On the other hand, the Group completed the disposal of 15% equity interests in CSP Zeebrugge Terminal for a consideration of US$8,780,000 in 2018.

FINANCING AND CREDIT FACILITIES

As at 31 December 2019, the Group's total outstanding borrowings amounted to US$2,916,450,000 (31 December 2018: US$2,479,903,000) and cash balance amounted to US$957,479,000 (31 December 2018: US$606,689,000). Banking facilities available but unused amounted to US$969,830,000 (31 December 2018: US$764,138,000).

ASSETS AND LIABILITIES

As at 31 December 2019, the Group's total assets and total liabilities were US$10,476,518,000 (31 December 2018: US$9,045,452,000) and US$4,711,313,000 (31 December 2018: US$3,225,802,000), respectively. Net assets were US$5,765,205,000 (31 December 2018: US$5,819,650,000). Net current assets as at 31 December 2019 amounted to US$299,931,000 (31 December 2018: US$75,552,000). As at 31 December 2019, the net asset value per share of the Company was US$1.82 (31 December 2018: US$1.87).

As at 31 December 2019, the net debt-to-total-equity ratio (excluding lease liabilities) was 34.0% (31 December 2018: 32.2%) and the interest coverage was 4.5 times (2018: 6.6 times).

As at 31 December 2019, certain assets of the Group with an aggregate net book value of US$378,555,000 (31 December 2018: US$167,178,000), together with the Company's restricted bank deposits and interest in subsidiaries, were pledged to secure bank loans and a loan from COSCO SHIPPING Finance, totalling US$990,140,000 (31 December 2018: US$1,017,631,000).

DEBT ANALYSIS

	As at 31 December 2019		As at 31 December 2018	
	US$	**(%)**	US$	(%)
By repayment term				
Within the first year	**508,786,000**	**17.5**	196,374,000	7.9
Within the second year	**265,941,000**	**9.1**	233,126,000	9.4
Within the third year	**411,968,000**	**14.1**	258,830,000	10.5
Within the fourth year	**707,903,000**	**24.3**	379,635,000	15.3
Within the fifth year and after	**1,021,852,000**	**35.0**	1,411,938,000	56.9
	2,916,450,000*	**100.0**	2,479,903,000*	100.0
By category				
Secured borrowings	**990,140,000**	**34.0**	1,017,631,000	41.0
Unsecured borrowings	**1,926,310,000**	**66.0**	1,462,272,000	59.0
	2,916,450,000*	**100.0**	2,479,903,000*	100.0
By denominated currency				
US dollar borrowings	**1,163,246,000**	**39.9**	721,698,000	29.1
RMB borrowings	**577,486,000**	**19.8**	560,147,000	22.6
Euro borrowings	**829,024,000**	**28.4**	853,360,000	34.4
HK dollar borrowings	**346,694,000**	**11.9**	344,698,000	13.9
	2,916,450,000*	**100.0**	2,479,903,000*	100.0

* Net of unamortised discount on notes and transaction costs on borrowings and notes.

FINANCIAL GUARANTEE CONTRACTS

As at 31 December 2019 and 31 December 2018, the Company did not have any guarantee contract.

TREASURY POLICY

The Group manages its foreign exchange risk by matching the currencies of its loans with the Group's functional currency of major cash receipts and underlying assets as much as possible. The functional currency of the Group's terminals business is mainly the Euro or Renminbi, the same currency of its borrowings, revenues and expenses, so as to provide a natural hedge against the foreign exchange volatility.

The financing activities of joint ventures and associates are denominated in their respective functional currencies so as to minimise foreign exchange exposure in investments.

Interest rate swap contracts with financial institutions are used to achieve the optimum ratio between fixed and floating rates and to manage the related interest rate exposure. As at 31 December 2019, 37.0% (31 December 2018: 41.1%) of the Group's borrowings were at fixed rates. In light of market conditions, the Group will continue to monitor and regulate its fixed and floating-rate debt portfolio, with a view to minimising its potential interest rate exposure.

EVENTS AFTER BALANCE SHEET DATE

On 10 February 2020, the Company completed the disposals of all the shares in COSCO Ports (Yangzhou) Limited ("CP (Yangzhou)") together with its 51% interest in Yangzhou Yuanyang Terminal and all the shares in Win Hanverky Investments Limited ("Win Hanverky") together with its 51% interest in Zhangjiagang Terminal and 4.59% interest in Yangzhou Yuanyang Terminal to Shanghai International Port Group (HK) Co., Limited ("SIPG (HK)") at considerations of approximately RMB316,039,000 (equivalent to approximately US$45,772,000) and approximately RMB380,774,000 (equivalent to approximately US$55,148,000) respectively. The aggregate sum of payables owing to the Company by the disposal entities of approximately US$29,967,000 were also transferred to SIPG on the same day at the same consideration. Any lower of the net asset values of Yangzhou Yuanyang Terminal and Zhangjiagang Terminal at completion, according to the post-closing audit, compared to that as at 31 March 2019 would be settled by the Company.

Upon completion of the disposals, CP (Yangzhou), Yangzhou Yuanyang Terminal, Win Hanverky and Zhangjiagang Terminal ceased to be subsidiaries of the Company. An after-tax disposal gain of approximately US$61,000,000 is expected to be recognised subject to the results of post-closing audit.

After the outbreak of Coronavirus Disease 2019 ("COVID-19 Outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the world and have affected the business and economic activities to some extent. With the increasing market uncertainty regarding the impact of COVID-19 Outbreak, the Group will pay close attention to the development of the COVID-19 Outbreak and evaluate the impact on its future financial position and operating results. As at the date on which this set of consolidated financial statements were authorised for issue, the Group was not aware of any material adverse effects on the 2019 consolidated financial statements as a result of the COVID-19 Outbreak.